



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
MONTGOMERY COUNTY  
SHERIFF'S SETTLEMENT - 2000 TAXES**

**April 23, 2001**

**EDWARD B. HATCHETT, JR.  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MONTGOMERY COUNTY**  
**SHERIFF'S SETTLEMENT- 2000 TAXES**

April 23, 2001

The Auditor of Public Accounts has completed the Montgomery County Sheriff's Settlement - 2000 Tax audit as of April 23, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Report Comment:**

- The Sheriff should require depository institutions to pledge or provide sufficient collateral to protect deposits.

**Deposits:**

The Sheriff's deposits were not fully insured and collateralized by bank securities or bonds.



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## Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable B. D. Wilson, Montgomery County Judge/Executive

Honorable Fred Shortridge, Montgomery County Sheriff

Members of the Montgomery County Fiscal Court

### Independent Auditor's Report

We have audited the Montgomery County Sheriff's Settlement - 2000 Taxes as of April 23, 2001. This tax settlement is the responsibility of the Montgomery County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Montgomery County Sheriff's taxes charged, credited, and paid as of April 23, 2001, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable B. D. Wilson, Montgomery County Judge/Executive

Honorable Fred Shortridge, Montgomery County Sheriff

Members of the Montgomery County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated November 13, 2001, on our consideration of the Sheriff's compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -  
November 13, 2001



MONTGOMERY COUNTY  
FRED SHORTRIDGE, SHERIFF  
SHERIFF'S SETTLEMENT - 2000 TAXES

April 23, 2001

| <u>Charges</u>                                   | <u>County Taxes</u> | <u>Special<br/>Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u>  |
|--|---------------------|-------------------------------------|---------------------|---------------------|
| Real Estate                                      | \$ 467,880          | \$ 899,989                          | \$ 2,408,950        | \$ 895,584          |
| Tangible Personal Property                       | 94,741              | 166,843                             | 419,725             | 333,963             |
| Intangible Personal Property                     |                     |                                     |                     | 91,167              |
| Fire Protection                                  | 191                 |                                     |                     |                     |
| Franchise Corporation                            | 36,190              | 72,497                              | 171,625             |                     |
| Prior Year Franchise                             | 3,890               | 6,454                               | 17,575              |                     |
| Limestone and Gravel                             | 50                  | 111                                 | 261                 | 97                  |
| Additional Billings                              | 697                 | 1,454                               | 3,486               | 1,592               |
| Taxes Increased Through Erroneous<br>Assessments | 45                  | 94                                  | 199                 | 27                  |
| Penalties  | 3,807               | 7,505                               | 19,482              | 7,788               |
| Adjusted to Sheriff's Receipt                    | (54)                | (1,355)                             | (249)               | (84)                |
| Gross Chargeable to Sheriff                      | <u>\$ 607,437</u>   | <u>\$ 1,153,592</u>                 | <u>\$ 3,041,054</u> | <u>\$ 1,330,134</u> |
| <u>Credits</u>                                   |                     |                                     |                     |                     |
| Discounts  | \$ 8,173            | \$ 15,305                           | \$ 41,004           | \$ 19,547           |
| Exonerations                                     | 3,114               | 6,152                               | 15,816              | 5,995               |
| Delinquents:                                     |                     |                                     |                     |                     |
| Real Estate                                      | 26,115              | 53,245                              | 134,398             | 49,738              |
| Tangible Personal Property                       | 10,306              | 21,533                              | 45,659              | 13,643              |
| Intangible Personal Property                     |                     |                                     |                     | 20,087              |
| Uncollected Franchise                            | <u>1,410</u>        | <u>2,676</u>                        | <u>6,349</u>        |                     |
| Total Credits                                    | <u>\$ 49,118</u>    | <u>\$ 98,911</u>                    | <u>\$ 243,226</u>   | <u>\$ 109,010</u>   |
| Net Tax Yield                                    | \$ 558,319          | \$ 1,054,681                        | \$ 2,797,828        | \$ 1,221,124        |
| Less: Commissions *                              | <u>24,016</u>       | <u>33,802</u>                       | <u>111,913</u>      | <u>52,185</u>       |
| Net Taxes Due                                    | \$ 534,303          | \$ 1,020,879                        | \$ 2,685,915        | \$ 1,168,939        |
| Taxes Paid                                       | 533,928             | 1,021,190                           | 2,685,407           | 1,168,085           |
| Refunds (Current and Prior Year)                 | <u>306</u>          | <u>367</u>                          | <u>1,483</u>        | <u>745</u>          |
| Due Districts or (Refunds Due Sheriff)           |                     | **                                  |                     |                     |
| as of Completion of Fieldwork                    | <u>\$ 69</u>        | <u>\$ (678)</u>                     | <u>\$ (975)</u>     | <u>\$ 109</u>       |

\* and \*\* See Page 4

MONTGOMERY COUNTY  
 FRED SHORTRIDGE, SHERIFF  
 SHERIFF'S SETTLEMENT - 2000 TAXES  
 April 23, 2001  
 (Continued)

\* Commissions:

|          |    |           |
|----------|----|-----------|
| 10% on   | \$ | 10,000    |
| 4.25% on | \$ | 2,349,412 |
| 4% on    | \$ | 2,944,689 |
| 1% on    | \$ | 327,851   |

\*\* Special Taxing Districts:

|                          |    |              |
|--------------------------|----|--------------|
| Library District         | \$ | (211)        |
| Health District          |    | (313)        |
| Extension District       |    | (158)        |
| Ambulance District       |    | 196          |
| Fire Protection District |    | <u>(192)</u> |

|  |    |                     |
|--|----|---------------------|
| Due Districts or (Refunds Due Sheriff) | \$ | <u><u>(678)</u></u> |
|--|----|---------------------|

The accompanying notes are an integral part of the financial statement.

MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENT

April 23, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 6, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$696,226 of public funds uninsured and unsecured.

MONTGOMERY COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 April 23, 2001  
 (Continued)

Note 2. Deposits (Continued)

|  | <u>Bank Balance</u> |
|--|---------------------|
| Secured with FDIC  | \$ 100,000          |
| Collateralized with securities held by pledging depository institution in the county official's name | 3,347,760           |
| Uncollateralized and Uninsured   | <u>696,226</u>      |
| Total  | <u>\$ 4,143,986</u> |

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 23, 2000 through April 23, 2001.

Note 4. Interest Income

The Montgomery County Sheriff earned \$5,579 as interest income on 2000 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2000 taxes, the Sheriff had \$1,363 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

## COMMENT AND RECOMMENDATION



MONTGOMERY COUNTY  
FRED SHORTRIDGE, SHERIFF  
COMMENT AND RECOMMENDATION

April 23, 2001

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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On December 6, 2000, \$696,226 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff's Response:*

*I will discuss our pledge with Community Trust to comply with error.*

PRIOR YEAR:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





Edward B. Hatchett, Jr.  
Auditor of Public Accounts

To the People of Kentucky

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Members of the Montgomery County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Montgomery County Sheriff's Settlement - 2000 Taxes as of April 23, 2001, and have issued our report thereon dated November 13, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Montgomery County Sheriff's Settlement - 2000 Taxes as of April 23, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards.

- The Sheriff Should Require Depository Institutions To Pledge or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Montgomery County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
November 13, 2001

